

MACKINAW CITY PUBLIC SCHOOLS
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

MACKINAW CITY PUBLIC SCHOOLS

TABLE OF CONTENTS

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-6
Basic Financial Statements	
District-Wide Financial Statements	
Statement of Net Assets	7
Statement of Activities	8
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet	9
Reconciliation of Fund Balances on the Balance Sheet of Governmental Funds to the Statement Of Net Assets	10
Statement of Revenues, Expenditures and Changes in Fund Balances	11
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Fiduciary Fund – Statement of Fiduciary Fund Net Assets	13
Notes to Financial Statements	14-22
Required Supplementary Information	
Major Fund	
Budgetary Comparison Schedule – General Fund	23
Schedule of Revenues, Expenditures, and Other Sources (Uses) Budget and Actual	24-25
Other Supplementary Information	
Non-major Governmental Funds	
Combining Balance Sheet Nonmajor Governmental Funds	26
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	27
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	28-29
Financial Audit Comments	30-32



Thomas R. Zick CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

P.O. BOX 149, 2947 MANTZ STREET
LEWISTON, MICHIGAN 49756
TELEPHONE: (989) 786-4032
FAX: (989) 786-7219

INDEPENDENT AUDITOR'S REPORT

September 1, 2005

Board of Education
Mackinaw City Public Schools
Mackinaw City, Michigan 49701

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mackinaw City Public Schools as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Mackinaw City Public Schools' management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Mackinaw City Public Schools, as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated September 1, 2005 on my consideration of Mackinaw City Public Schools' internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 6 and on 23 through 25 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mackinaw City Public Schools' basic financial statements. The introductory section, and combining non-major fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements have been subjected to the auditing procedures applied by me in the audit of the basic financial statements and, in my opinion, based on my audit are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in dark ink, appearing to read "T. Zick, CPA, P.C.", is positioned above the printed name.

THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

MACKINAW CITY PUBLIC SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management discussion and analysis, a requirement of GASB 34, is intended to be the Mackinaw City Public Schools District ("the District") Management's discussion and analysis of the financial results for the year ended June 30, 2005. The intent of this discussion and analysis is to provide a look at the district's performance and current position. Readers should also review the notes to the financial statements and financial statements to enhance their understanding of the district's financial performance.

FINANCIAL HIGHLIGHTS

The overall financial condition of the district remains strong. All goals related to financial activities have been met in the past year. If current revenue and expenditure patterns can be maintained, the resources for the following year will be available.

The assets of the Mackinaw City Public Schools District exceeded its liabilities at the close of the most recent fiscal year by \$1,661,543 million (net assets).

The district's total net assets decreased by \$205,860 in the 2004/05 school year.

At the end of the current fiscal year, the fund balance for the District's General Fund is \$481,084 which exceeds acceptable limits.

USING THE ANNUAL REPORT

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a whole (government-wide statements), and then proceed to provide an increasingly detailed look at specific financial statements (fund financial statements). Also included are various notes to the financial statements. The audit also contains supplemental information in addition to the basic financial statements.

Reporting the District as a Whole – *The Statement of Net Assets and Statement of Activities*

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the district as a whole and about its activities in a manner to help address this question. These statements include all assets and liabilities of the District using the accrual basis of accounting similar to the accounting used by the private sector. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

The two statements report the District's net assets and any changes in them. The change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base, political conditions on a State level, student enrollment growth, quality of local service, and facility improvements prior to arriving at any conclusion regarding the overall health of the District.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds, not the district as a whole. The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". The two types of funds: governmental funds and fiduciary funds use different accounting approaches as further discussed in the notes to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Governmental Funds

Most of the District's activities are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental funds is reconciled in the basic financial statements.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the District's net assets as of June 30, 2005 and 2004.

TABLE 1 Governmental Activities

<u>Assets</u>	<u>06/30/05</u>	<u>06/30/04</u>
Current Assets	\$ 861,897	\$ 1,048,009
Noncurrent Assets	1,104,958	1,172,810
Total Assets	<u>\$ 1,966,855</u>	<u>\$ 2,220,819</u>
<u>Liabilities</u>		
Current Liabilities	\$ 256,822	\$ 222,486
Noncurrent Liabilities	48,490	130,930
Total Liabilities	<u>\$ 305,312</u>	<u>\$ 353,416</u>
<u>Net Assets</u>		
Invested in Capital Assets - Net of Debt	\$ 1,014,795	\$ 1,041,880
Restricted	159,383	92,215
Unrestricted	487,365	732,607
Total Net Assets	<u>\$ 1,661,543</u>	<u>\$ 1,866,702</u>

The District currently reports positive balances in each category of net assets.

The results of this year's operations for the District as a whole are represented in a statement of activities (Table 2), which shows the changes in net assets for the fiscal year 2005 and 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

TABLE 2 Governmental Activities

	<u>06/30/05</u>	<u>06/30/04</u>
Program Revenues		
Charges for services	\$ 20,913	\$ 20,372
Operating grants and contributions	253,647	201,539
General Revenues		
Property taxes	1,872,381	1,957,205
State School Aid	20,749	42,163
Other	34,047	26,200
Total Revenues	<u>\$ 2,201,737</u>	<u>\$ 2,247,479</u>
Functions/Program Expenses		
Instruction	1,590,811	1,503,973
Supporting services	780,750	749,842
Food services	30,637	30,678
Transfers and other	5,399	1,188
Total Expenses	<u>2,407,597</u>	<u>2,285,681</u>
Change in Net Assets	<u>\$ (205,860)</u>	<u>\$ (38,202)</u>

As reported in the statement of activities the cost of all governmental activities for the year was \$2,407,597. While \$1,872,381 in revenue was generated directly from local taxpayers, another \$20,913 was generated through "charges for actual services" to local districts, or individuals that benefited directly from our services. State, federal, other regional grants and programs brought \$253,647 to the district. The district received \$20,749 in state education funding and just over \$34,047 in other miscellaneous sources, inclusive of investment earnings. Net assets for the year ending June 30, 2005 decreased by approximately \$205,860.

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The District's budgets are prepared in accordance to Michigan Law. The most significant budgeted fund is the General Fund. During the fiscal year of 2004/05 the District amended the budgets of these major governmental funds once. This has been the normal business practice of the district. Due to the timing of grant awards and pupil counts, the general fund budget will change significantly from the beginning to the end of the year. The district's actual expenditures were \$33,254 less than budgeted expenditures.

General Fund

The General Fund revenues were lower than expenditures in the past year of operations by \$235,519. In anticipation of the state education budget crises, the district must make cuts in operational areas.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's assets have accumulated \$1,862,780 of depreciation. Our capitalized assets include our buildings, land, equipment and transportation fleet. This year saw a \$67,852 decrease in Net Capital Assets. A categorized listing of the assets is below.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

TABLE 3 Mackinaw City Public Schools District Capital Assets

	Balance June 30, 2004	Additions	Disposals	Balance June 30, 2005
Capital assets not being depreciated:				
Land	\$ 33,000	\$ -	\$ -	\$ 33,000
Capital assets being depreciated:				
Land improvements	483,210	-	-	483,210
Building and building improvements	1,878,042	19,686	-	1,897,728
Buses and other vehicles	174,985	-	-	174,985
Furniture and equipment	368,665	10,150	-	378,815
Subtotal	2,904,902	29,836	-	2,934,738
Accumulated depreciation:				
Land improvements	483,210	-	-	483,210
Building and building improvements	971,135	38,852	-	1,009,987
Buses and other vehicles	88,599	16,813	-	105,412
Furniture and equipment	222,148	42,023	-	264,171
Subtotal	1,765,092	97,688	-	1,862,780
Net capital assets being depreciated	1,139,810	(67,852)	-	1,071,958
Net governmental capital assets	<u>\$ 1,172,810</u>	<u>\$ (67,852)</u>	<u>\$ -</u>	<u>\$ 1,104,958</u>

Long Term Debt

The District owes \$90,163 on installment loans which will be paid over the next four years. Details are shown in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The economy of the State of Michigan has dramatically slowed and forecasts project shortages in both the State's General Fund and the School Aid Fund for the upcoming year. The exact implications the shortages will have on the District are unknown. Our budgets were prepared with these factors in mind. We also are dependent on student counts which vary from year to year, for our foundation allowance and on tax millage which has been rolled back due to the Headlee rollback calculations.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Mackinaw City Public Schools District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Superintendent, Mackinaw City Public Schools District, 609 West Central; Mackinaw City, MI 49701

MACKINAW CITY PUBLIC SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities
ASSETS	
Cash demand,time deposits, and investments	\$ 835,638
Receivables	
Other governments	26,259
Capital assets	
Land	33,000
Other capital assets, net of depreciation	<u>1,071,958</u>
 TOTAL ASSETS	 <u>1,966,855</u>
 LIABILITIES	
Account payable	8,695
Accrued liabilities	206,454
Noncurrent liabilities:	
Due within one year	41,673
Due in more than one year	<u>48,490</u>
 TOTAL LIABILITIES	 <u>305,312</u>
 NET ASSETS	
Invested in capital assets, net of related debt	1,014,795
Restricted for:	
Capital Projects	159,383
Unrestricted	<u>487,365</u>
 TOTAL NET ASSETS	 <u>\$ 1,661,543</u>

See Notes to Financial Statements

MACKINAW CITY PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
JUNE 30, 2005

Functions / Programs	Expenses	Program Revenues		Revenue
		Services	Grants and	
Primary Government				
Governmental Activities				
Instruction	\$ 1,590,811	\$ -	\$ 221,498	\$ (1,369,313)
Support Services	708,491	-	17,913	(690,578)
Athletics	72,259	12,824	-	(59,435)
Food Service	30,637	8,089	14,236	(8,312)
Interest on Debt	5,399	-	-	(5,399)
Total Governmental Activities	<u>\$2,407,597</u>	<u>\$20,913</u>	<u>\$253,647</u>	<u>(2,133,037)</u>
General revenues:				
Taxes:				
Property taxes levied for general purposes				1,777,080
Property taxes, levied for debt services				153
Property taxes levied for capital projects - sinking fund				95,148
State aid not restricted to specific purposes				20,749
Interest and investment earnings				18,303
Other				<u>15,744</u>
contributions and transfers				<u>1,927,177</u>
Change in net assets				(205,860)
Net assets, beginning of year				<u>1,867,403</u>
Net assets, end of year				<u>\$ 1,661,543</u>

See Notes to Financial Statements

MACKINAW CITY PUBLIC SCHOOLS
BALANCE SHEET
JUNE 30, 2005

	GENERAL FUND	CAPITAL PROJECT FUND	OTHER FUNDS	TOTAL
ASSETS				
Cash and Investments	\$ 670,723	\$ 158,634	\$ 6,281	\$ 835,638
Receivables				
Accounts	-		-	-
Inventory	-		-	-
Due From Other Funds	-	749	-	749
Due From Other Governmental Units	26,259	-	-	26,259
	<u>26,259</u>	<u>-</u>	<u>-</u>	<u>26,259</u>
TOTAL ASSETS	<u>\$ 696,982</u>	<u>\$ 159,383</u>	<u>\$ 6,281</u>	<u>\$ 862,646</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 8,695	\$ -	\$ -	\$ 8,695
Accrued Liabilities	206,454	-	-	206,454
Due to Other Funds	749	-	-	749
Due to Other Governmental Units	-	-	-	-
Deferred Revenue	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>215,898</u>	<u>-</u>	<u>-</u>	<u>215,898</u>
FUND BALANCES				
Reserved	-		6,281	6,281
Unreserved	481,084	159,383	-	640,467
	<u>481,084</u>	<u>159,383</u>	<u>-</u>	<u>640,467</u>
TOTAL FUND BALANCES	<u>481,084</u>	<u>159,383</u>	<u>6,281</u>	<u>646,748</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 696,982</u>	<u>\$ 159,383</u>	<u>\$ 6,281</u>	<u>\$ 862,646</u>

See Notes to Financial Statements

MACKINAW CITY PUBLIC SCHOOLS
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
JUNE 30, 2005

Fund Balances - Total Governmental Funds	\$646,748
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Capital Assets - at Cost	2,967,738
Accumulated Depreciation	(1,862,780)

Certain liabilities such as bonds and notes payable are not due and payable in the current period and therefore are not reported in the governmental funds

Installment Notes Payable	<u>(90,163)</u>
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Net Assets of Governmental Activities	<u><u>\$1,661,543</u></u>
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See Notes to Financial Statements

MACKINAW CITY PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	GENERAL FUND	CAPITAL PROJECT FUND	OTHER FUNDS	TOTAL
REVENUES				
Local Sources	\$ 1,828,055	\$ 95,148	\$ 21,066	\$ 1,944,269
State Sources	106,741	-	2,348	109,089
Federal Sources	102,444	-	11,888	114,332
Interest Income	15,992	2,248	63	18,303
Other Revenue	15,744	-	-	15,744
TOTAL REVENUES	2,068,976	97,396	35,365	2,201,737
EXPENDITURES				
Current				
Instruction	1,509,936	-	-	1,509,936
Supporting Services	691,678	-	-	691,678
Athletic Events	-	-	72,259	72,259
Food Services	-	-	30,637	30,637
Capital Outlay	10,150	19,686	-	29,836
Debt Service:				
Principal	40,767	-	-	40,767
Interest and Other Charges	5,399	-	-	5,399
TOTAL EXPENDITURES	2,257,930	19,686	102,896	2,380,512
REVENUES OVER (UNDER) EXPENDITURES	(188,954)	77,710	(67,531)	(178,775)
OTHER FINANCING SOURCES (USES)				
Transfers In	11,419	-	57,984	69,403
Transfers (Out)	(57,984)	-	(11,419)	(69,403)
TOTAL OTHER FINANCING SOURCES (USES)	(46,565)	-	46,565	-
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(235,519)	77,710	(20,966)	(178,775)
FUND BALANCES, BEGINNING OF YEAR	716,603	81,673	27,247	825,523
FUND BALANCES, END OF YEAR	\$ 481,084	\$ 159,383	\$ 6,281	\$ 646,748

See Notes to Financial Statements

MACKINAW CITY PUBLIC SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
FOR THE YEAR ENDED JUNE 30, 2005

Net Change in Fund Balances - Total Governmental Funds	(178,775)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - Capital Outlay	29,836
Deduct - Depreciation Expense	(97,688)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - Principal Payments on Long-term Liabilities	<div style="border-top: 1px solid black; display: inline-block;">40,767</div>
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Change in Net Assets of Governmental Activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block;">(\$205,860)</div>
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See Notes to Financial Statements

MACKINAW CITY PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY FUND NET ASSETS
AGENCY FUNDS
JUNE 30, 2005

ASSETS

Cash	\$ 30,646
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TOTAL ASSETS	<u>\$ 30,646</u>
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LIABILITIES

Due to Student Groups	\$ 16,161
Scholarship funds	<u>14,485</u>

TOTAL LIABILITIES	<u>\$ 30,646</u>
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See Notes to Financial Statements

MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Mackinaw City Public Schools conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District.

REPORTING ENTITY

The school district is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's district-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

District-Wide Financial Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the District.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The School District reports the following major governmental funds:

General Fund - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

Capital Project – Sinking Fund – The Fund is used to record tax, interest, and other revenue for the payment of capital project type expenditures.

Additionally, the District reports the following governmental types:

Special Revenue Funds - Special Revenue Funds are governmental funds used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The District's Special Revenue Funds include the Food Service and Athletics Funds. Any operating deficit generated by these activities is the responsibility of the General Fund.

Fiduciary Funds – The School District maintains an Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Cash and Investments – Cash and investments include cash on hand, demand deposits, and savings accounts.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.”

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes are levied and become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county delinquent tax rolls. The County operates a delinquent tax revolving fund and normally pays to the District all current taxes annually prior to June 30.

MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Fund Balance – The fund balance in the Capital Projects Fund is shown as a restricted fund balance. This balance can only be used to purchase capital outlay type items related to land and building.

Capital Assets – Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings, building additions, and land improvements	10-50 years
Buses and other vehicles	7-15 years
Furniture and other equipment	2-15 years

Long-Term Obligations – In the district-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general and special revenue funds. All annual appropriations lapse at the fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year.

Excess Expenditures Over Appropriations in Budgeted Funds - The School District is required under Public Act 621 of 1978 to adopt (pass) a budget (General Appropriations Act) for the General Fund and Individual Special Revenue Funds. The District complied in all areas except the following expenditure areas which exceeded budgeted amounts:

MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

<u>Fund/Function</u>	<u>Total Budget</u>	<u>Actual Expenditures</u>	<u>Budget Variance</u>
General Fund			
Secondary	\$ 669,023	\$ 687,383	\$ (18,360)
Readiness	\$ 31,309	\$ 34,744	\$ (3,435)
Special Education	\$ 52,041	\$ 56,312	\$ (4,271)
Tuition	\$ 18,000	\$ 30,006	\$ (12,006)
Principal	\$ 35,200	\$ 40,767	\$ (5,567)
Interest	\$ 2,600	\$ 5,399	\$ (2,799)
Athletic Fund	\$ 17,205	\$ 72,259	\$ (55,054)
Food Service Fund	\$ 25,250	\$ 30,637	\$ (5,387)

NOTE 3 - CASH AND INVESTMENTS

The captions on the combined balance sheet related to cash and investments are as follows:

	<u>Imprest Cash</u>	<u>Cash/checking and Savings</u>	<u>Investments</u>	<u>Total</u>
Government Activities	\$ 100	\$ 516,538	\$ 319,000	\$ 835,638
Agency Funds	-	30,646	-0-	30,646
	<u>\$ 100</u>	<u>\$ 547,184</u>	<u>\$ 319,000</u>	<u>\$ 866,284</u>

Deposits - At year-end, the carrying amount of the District's deposits was \$547,184 and the bank balance was \$502,780 classified as to risk as follows. Deposits in transit net of outstanding checks were \$44,404.

Insured	\$ 393,017
Uninsured – Uncollateralized	154,167
	<u>\$ 547,184</u>

Investments, totaling \$319,000, were all in a municipal investment fund with National City Bank. This fund is uninsured and is a mutual fund with a share price of \$1 that does not vary with market fluctuations.

Investments – Act 217, PA 1982, authorized the School District to deposit and invest in the following:

- a. Bonds, bills, and other direct obligations of the United States or its agencies.
- b. Certificates of deposit and other savings instruments issued by a federally insured bank, savings and loan or credit union maintaining an office in Michigan.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Mutual Funds comprised of investments which are legal for direct investment by local units of government in Michigan.
- e. U.S. Government or federal agency obligation repurchase agreements.

The Board of Education is authorized to designate depositories for District funds, and the funds are invested in accordance with State of Michigan statutory authority.

MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 4 – RECEIVABLES

Receivables as of year-end for the School District's individual major funds and the other nonmajor governmental funds are as follows:

	<u>General</u>	<u>Other Funds</u>
Receivables		
State of Michigan	\$ 20,722	\$ -0-
Other Governments	<u>5,537</u>	<u>-0-</u>
Net Receivables	<u>\$ 26,259</u>	<u>\$ -0-</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, there was no deferred revenue.

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

Due to/From Other Funds

<u>Receivable Fund</u>		<u>Payable Fund</u>	
Capital Project Fund	\$ 749	General Fund	\$ 749
Total	<u>\$ 749</u>		<u>\$ 749</u>
Transfers In/Out	<u>Transfer In</u>	<u>Transfer Out</u>	<u>Total</u>
General Fund	\$ 11,419	\$ (57,984)	\$ (46,565)
Special Revenue:			
Food Service Fund	7,650	0	7,650
Athletics	50,334	0	50,334
Debt Retirement	<u>0</u>	<u>(11,419)</u>	<u>11,419</u>
Total	<u>\$ 69,403</u>	<u>\$ (69,403)</u>	<u>\$ 0</u>

MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 6 – CAPITAL ASSETS

Capital asset activity of the School District's governmental activities was as follows:

	Balance June 30, 2004	Additions	Disposals	Balance June 30, 2005
Capital assets not being depreciated:				
Land	\$ 33,000	\$ -	\$ -	\$ 33,000
Capital assets being depreciated:				
Land improvements	483,210	-	-	483,210
Building and building improvements	1,878,042	19,686	-	1,897,728
Buses and other vehicles	174,985	-	-	174,985
Furniture and equipment	368,665	10,150	-	378,815
Subtotal	2,904,902	29,836	-	2,934,738
Accumulated depreciation:				
Land improvements	483,210	-	-	483,210
Building and building improvements	971,135	38,852	-	1,009,987
Buses and other vehicles	88,599	16,813	-	105,412
Furniture and equipment	222,148	42,023	-	264,171
Subtotal	1,765,092	97,688	-	1,862,780
Net capital assets being depreciated	1,139,810	(67,852)	-	1,071,958
Net governmental capital assets	<u>\$ 1,172,810</u>	<u>\$ (67,852)</u>	<u>\$ -</u>	<u>\$ 1,104,958</u>

Depreciation expense was charged to activities of the School District as follows:

Governmental activities:

Instruction	\$ 80,875
Support services	16,813
Total	<u>\$ 97,688</u>

NOTE 7 - LONG-TERM DEBT

The following is a summary of debt transactions of the School District for the Year ended June 30, 2005:

	<u>Installment</u>	<u>Total</u>
Payable at July 1, 2004	\$ 130,930	\$ 130,930
Principal payments:		
Contracts	<u>(40,767)</u>	<u>(40,767)</u>
Payable at June 30, 2005	<u>\$ 90,163</u>	<u>\$ 90,163</u>

MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 7 - LONG-TERM DEBT (CONTINUED)

Description	Interest Rate	Maturity Year	Outstanding 6/30/05		Total
			Principal	Interest	
Technology Contract	3.65%	2007	\$ 46,516	\$ 2,568	\$ 49,084
Bus Contract	5.20%	2005	10,696	504	11,200
Bus contract	4.35%	2008	32,951	3,657	36,608
Total			<u>\$ 90,163</u>	<u>\$ 6,729</u>	<u>\$ 96,892</u>

INSTALLMENT PURCHASE AGREEMENT

During the current fiscal year ended June 30, 2003 the District purchased a Bluebird bus on an installment purchase contract. The contract is with the Bluebird Company. The District financed \$49,500 over 6 years. The first payment was due September 8, 2003 and the note matures on September 8, 2008. Payments are due annually throughout the life of the agreement. Interest is 4.35% per annum. The following schedule details the payments due:

	<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>	<u>2008/09</u>	<u>Total</u>
Principal	\$ 7,719	\$ 8,055	\$ 8,405	\$ 8,772	\$ 32,951
Interest	<u>1,433</u>	<u>1,097</u>	<u>747</u>	<u>380</u>	<u>3,657</u>
Total	<u>\$ 9,152</u>	<u>\$ 9,152</u>	<u>\$ 9,152</u>	<u>\$ 9,152</u>	<u>\$ 36,608</u>

During the fiscal year ended June 30, 2003 the District funded technology purchases with an installment loan from the vendor and National City Bank. Annual installments of \$23,258 per annum plus interest at 3.65% are due. The following schedule details the payments due:

	<u>2005/06</u>	<u>2006/07</u>	<u>Total</u>
Principal	\$ 23,258	\$ 23,258	\$ 46,516
Interest	<u>1,712</u>	<u>856</u>	<u>2,568</u>
Total	<u>\$ 24,970</u>	<u>\$ 24,114</u>	<u>\$ 49,084</u>

During the fiscal year ended June 30, 2001 the District purchased a bus and financed it with First community Bank. Payments are \$11,200 per year with interest at 5.2% per annum. The following schedule details the payments due:

	<u>2005/06</u>	<u>Total</u>
Principal	\$ 10,696	\$ 10,696
Interest	<u>504</u>	<u>504</u>
Total	<u>\$ 11,200</u>	<u>\$ 11,200</u>

The annual requirements to amortize all applicable debt outstanding as of June 30, 2005, including interest payments of \$6,729 are as follows:

MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 7 - LONG-TERM DEBT (CONTINUED)

Annual Debt Service Requirements:

	Governmental Activities		
	Principal	Interest	Total
2005/06	\$ 41,673	\$ 3,649	\$ 45,322
2006/07	31,313	1,953	33,266
2007/08	8,405	747	9,152
2008/09	<u>8,772</u>	<u>380</u>	<u>9,152</u>
Total	<u>\$ 90,163</u>	<u>\$ 6,729</u>	<u>\$ 96,892</u>

NOTE 8 - DEFINED BENEFIT PENSION PLAN

All District full-time employees participate in the Michigan Public School Employees' Retirement System, ("System"), a cost-sharing multiple-employer public employee retirement system. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

All full-time employees of the District are required by law to participate in the System. All benefits vest after 10 years of service. Basic plan members may retire at age 55 with 30 years of credited service, or at age 60 with 10 or more years of credited service. A Member Investment Plan (MIP) member may retire at any age with 30 years of credited service or at age 60 with 5 years of service. Both basic and MIP plan members may retire at age 55 with 15 years of service and receive reduced early retirement benefits. Benefits are paid monthly over the member's or survivor's lifetime and are equal to 1.5% of the member's final average compensation times the member's years of credited service. The final average compensation period for basic members is 60 consecutive months and for MIP members is 36 consecutive months. The system also provides health, dental and vision insurance coverage for retirees.

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at various rates depending on school fiscal year compensation. Basic plan members make no contributions. The District was required to contribute 14.87% of participant's salary to the System for the fiscal year ended 6/30/05, and the State of Michigan is responsible for any further contributions necessary to keep the fund actuarially sound. The School District's contributions to the MPSERS plan for the years ended June 30, 2005, 2004, and 2003 were \$190,445, \$163,562, and \$156,101.

Post-Employment Benefits

Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage. In prior years the State pre-funded these benefits using the entry age actuarial cost method. Retirees having this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverage. These contributions are deducted from the retirees monthly pension. No additional contributions are required from the District on these post-employment benefits. The 14.87% noted above includes these costs.

MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 9 - RISK MANAGEMENT

The School District participates in the MASB-SEG Property and Casualty Pool and Workers Compensation Pool.

The MASB-SEG Property/Casualty Pool, Inc. was created on May 23, 1985 and organized under Public Act 138 of 1982 as amended, as a governmental group property and casualty self-insurance pool. Approximately 375 educational institutions within the State of Michigan participate in the Pool.

The Pool limits the maximum net loss that may arise from large risks or in concentrated areas of exposure by reinsuring certain levels of risks with other insurers or reinsurers. The Pool purchases excess liability coverage from one or more insurers or reinsurers to provide 100 percent coverage at each insured level.

The District has its vehicle insurance with a private insurance carrier.

NOTE 10 – SINKING FUND EXPENDITURES

During the year ended June 30, 2005 the District spent \$19,686 in sinking fund revenues on projects that qualify under MCL 380.1212 as follows:

Brick wall construction	\$ 4,083
Hot water heating system replacement,	2,612
Window replacement, locker replacement	<u>12,991</u>
	<u>\$ 19,686</u>

REQUIRED SUPPLEMENTARY INFORMATION

MACKINAW CITY PUBLIC SCHOOLS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, OTHER SOURCES (USES)
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Local Sources	\$ 1,918,680	\$ 1,918,680	\$ 1,859,791	\$ (58,889)
State Sources	59,000	59,000	106,741	47,741
Federal Sources	50,000	50,000	102,444	52,444
TOTAL REVENUES	2,027,680	2,027,680	2,068,976	41,296
EXPENDITURES				
Current:				
Instruction:				
Basic programs	1,335,690	1,360,535	1,371,972	(11,437)
Added Needs	127,822	149,226	137,964	11,262
Capital Outlay	3,000	8,000	6,886	1,114
Support Services:				
Student Services	28,945	22,545	18,648	3,897
General Administration	391,361	392,849	365,063	27,786
Maintenance	233,252	220,252	212,554	7,698
Transportation	59,977	59,977	57,711	2,266
Other Services	18,500	15,000	7,696	7,304
Tuition	18,000	18,000	30,006	(12,006)
Capital Outlay	7,000	7,000	3,264	3,736
Principal	35,200	35,200	40,767	(5,567)
Interest	2,600	2,600	5,399	(2,799)
TOTAL EXPENDITURES	2,261,347	2,291,184	2,257,930	33,254
REVENUES OVER (UNDER) EXPENDITURES	(233,667)	(263,504)	(188,954)	74,550
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	11,419	11,419
Transfers (Out)	(52,317)	(52,317)	(57,984)	(5,667)
TOTAL OTHER FINANCING SOURCES (USES)	(52,317)	(52,317)	(46,565)	5,752
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(285,984)	(315,821)	(235,519)	80,302
FUND BALANCES, BEGINNING OF YEAR	716,603	716,603	716,603	-
FUND BALANCES, END OF YEAR	\$ 430,619	\$ 400,782	\$ 481,084	\$ 80,302

See Notes to Financial Statements

MACKINAW CITY PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND OTHER SOURCES (USES)
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	BUDGETED AMOUNT		ACTUAL	VARIANCE WITH FINAL BUDGET OVER
	ORIGINAL	FINAL		
LOCAL SOURCES				
Taxes and Penalties	\$ 1,843,680	\$ 1,843,680	\$ 1,777,080	\$ (66,600)
Interest Income	50,000	50,000	15,992	(34,008)
Miscellaneous Income	25,000	25,000	15,744	(9,256)
Incoming Transfers ISD	-	-	50,975	50,975
TOTAL LOCAL SOURCES	1,918,680	1,918,680	1,859,791	(58,889)
STATE SOURCES				
Categorical State Aid	59,000	59,000	105,265	46,265
Driver's Education	-	-	991	991
Incoming Transfers ISD	-	-	485	485
TOTAL STATE SOURCES	59,000	59,000	106,741	47,741
FEDERAL SOURCES				
Title I	50,000	50,000	37,590	(12,410)
Title II A	-	-	12,883	12,883
Title V	-	-	873	873
Education Technology	-	-	2,003	2,003
REAP Grant	-	-	46,941	46,941
Incoming Transfers ISD & Other	-	-	2,154	2,154
TOTAL FEDERAL SOURCES	50,000	50,000	102,444	52,444
OTHER FINANCING SOURCES				
Transfer In	-	-	11,419	11,419
TOTAL OTHER FINANCING SOURCES	-	-	11,419	11,419
TOTAL REVENUE & OTHER FINANCING SOURCES	\$ 2,027,680	\$ 2,027,680	\$ 2,080,395	\$ 52,715
EXPENDITURES				
INSTRUCTION				
Basic Programs:				
Elementary	\$ 643,603	\$ 660,203	\$ 649,845	\$ 10,358
Readiness	22,032	31,309	34,744	(3,435)
Secondary	670,055	669,023	687,383	(18,360)
Total Basic Programs	1,335,690	1,360,535	1,371,972	(11,437)
Added Needs:				
Special Education	33,637	52,041	56,312	(4,271)
Title I	63,698	66,698	53,059	13,639
At Risk	30,487	30,487	28,593	1,894
Total Added Needs	127,822	149,226	137,964	11,262

See Notes to Financial Statements

(Continued)

MACKINAW CITY PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND OTHER SOURCES (USES)
BUDGET AND ACTUAL (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005

	BUDGETED AMOUNT		ACTUAL	VARIANCE WITH FINAL BUDGET OVER
	ORIGINAL	FINAL		
INSTRUCTION (CONTINUED)				
Other - Capital Outlay:	\$ 3,000	\$ 8,000	\$ 6,886	\$ 1,114
TOTAL INSTRUCTION	1,466,512	1,517,761	1,516,822	939
SUPPORTING SERVICES				
Student Services:				
Health Services	14,400	8,200	7,209	991
Student Activity	12,103	12,103	9,737	2,366
Library	500	300	247	53
Audio-Visual	1,942	1,942	1,455	487
Total Student Services	28,945	22,545	18,648	3,897
General Administration:				
Board of Education	9,110	9,790	9,190	600
Executive Administration	302,687	289,923	263,745	26,178
Office of Principal	79,564	93,136	92,128	1,008
Total General Administration	391,361	392,849	365,063	27,786
Plant Operation and Maintenance	233,252	220,252	212,554	7,698
Pupil Transportation	59,977	59,977	57,711	2,266
Other Services	18,500	15,000	7,696	7,304
Tuition	18,000	18,000	30,006	(12,006)
Capital Outlay	7,000	7,000	3,264	3,736
Principal	35,200	35,200	40,767	(5,567)
Interest	2,600	2,600	5,399	(2,799)
TOTAL SUPPORTING SERVICES	794,835	773,423	741,108	32,315
OUTGOING TRANSFERS				
Food Service Fund	9,234	9,234	7,650	1,584
Athletics Fund	43,083	43,083	50,334	(7,251)
TOTAL OUTGOING TRANSFERS	52,317	52,317	57,984	(5,667)
TOTAL EXPENDITURES AND TRANSFERS OUT	\$ 2,313,664	\$ 2,343,501	\$ 2,315,914	\$ 27,587

See Notes to Financial Statements

OTHER SUPPLEMENTARY INFORMATION

MACKINAW CITY PUBLIC SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>SPECIAL REVENUE FUNDS</u>			
	<u>ATHLETIC FUND</u>	<u>FOOD SERVICE FUND</u>	<u>DEBT SERVICE FUND</u>	<u>TOTAL</u>
ASSETS				
Cash	\$ 1,316	\$ 4,965	\$ -	\$ 6,281
Investments	-	-	-	-
Receivables:				
Taxes	-	-	-	-
Accounts	-	-	-	-
Due From Other Funds	-	-	-	-
Due From Other Governmental Units	-	-	-	-
	<u>1,316</u>	<u>4,965</u>	<u>-</u>	<u>6,281</u>
TOTAL ASSETS	<u>\$ 1,316</u>	<u>\$ 4,965</u>	<u>\$ -</u>	<u>\$ 6,281</u>
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Accrued Liabilities	-	-	-	-
Due to Other Funds	-	-	-	-
Due to Other Governmental Units	-	-	-	-
Deferred Revenue	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE				
Reserved	1,316	4,965	-	6,281
Unreserved	-	-	-	-
	<u>1,316</u>	<u>4,965</u>	<u>-</u>	<u>6,281</u>
TOTAL FUND BALANCES	<u>1,316</u>	<u>4,965</u>	<u>-</u>	<u>6,281</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,316</u>	<u>\$ 4,965</u>	<u>\$ -</u>	<u>\$ 6,281</u>

See Notes to Financial Statements

MACKINAW CITY PUBLIC SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2005

	SPECIAL REVENUE FUNDS			
	ATHLETIC FUND	FOOD SERVICE FUND	DEBT SERVICE FUND	TOTAL
REVENUES				
Local Sources	\$ 12,824	\$ 8,089	\$ 153	\$ 21,066
Interest	25	14	24	63
State Sources	-	2,348	-	2,348
Federal Sources	-	11,888	-	11,888
TOTAL REVENUES	12,849	22,339	177	35,365
EXPENDITURES				
Current				
Athletics	72,259	-	-	72,259
Food Service	-	30,637	-	30,637
Other	-	-	-	-
TOTAL EXPENDITURES	72,259	30,637	-	102,896
REVENUES OVER (UNDER) EXPENDITURES	(59,410)	(8,298)	177	(67,531)
OTHER FINANCING SOURCES (USES)				
Transfers In	50,334	7,650	-	57,984
Transfers (Out)	-	-	(11,419)	(11,419)
TOTAL OTHER FINANCING SOURCES (USES)	50,334	7,650	(11,419)	46,565
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	(9,076)	(648)	(11,242)	(20,966)
FUND BALANCES, BEGINNING OF YEAR	10,392	5,613	11,242	27,247
FUND BALANCES, END OF YEAR	\$ 1,316	\$ 4,965	\$ -	\$ 6,281

See Notes to Financial Statements



Thomas R. Zick CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

P.O. BOX 149, 2947 MANTZ STREET
LEWISTON, MICHIGAN 49756
TELEPHONE: (989) 786-4032
FAX: (989) 786-7219

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

September 1, 2005

Board of Education
Mackinaw City Public Schools
Mackinaw City, Michigan 49701

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mackinaw City Public Schools as of and for the year ended June 30, 2005, which collectively comprise the Mackinaw City Public Schools' basic financial statements and have issued my report thereon dated September 1, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Mackinaw City Public Schools' internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to management of Mackinaw City Public Schools in a separate letter dated September 1, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mackinaw City Public Schools' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of noncompliance that I have reported to management of Mackinaw City Public Schools in a separate letter dated September 1, 2005.

Page 2
September 1, 2005
Board of Education
Mackinaw City Public Schools

This report is intended solely for the information and use of management, federal awarding agencies, pass-through entities, the Michigan Department of Education, and Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "T. Zick, CPA, P.C.", written in a cursive style.

THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT



Thomas R. Zick CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

P.O. BOX 149, 2947 MANTZ STREET
LEWISTON, MICHIGAN 49756
TELEPHONE: (989) 786-4032
FAX: (989) 786-7219

FINANCIAL AUDIT COMMENTS

September 1, 2005

Board of Education
Mackinaw City Public Schools
Mackinaw City, Michigan 49701

I have audited the basic financial statements of Mackinaw City Public Schools, Mackinaw City, Michigan, for the year ended June 30, 2005 and have issued my report thereon dated September 1, 2005.

I have conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

The management of Mackinaw City Public Schools, Mackinaw City, Michigan is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing my audit of the basic financial statements of Mackinaw City Public Schools, Mackinaw City, Michigan, for the year ended June 30, 2005, I obtained an understanding of the internal control structure. With respect to the internal control structure, I obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and I assessed control risk in order to determine my auditing procedures for the purpose of expressing my opinion on the basic financial statements and not to provide an opinion on the internal control structure. Accordingly, I do not express such an opinion.

I noted certain matters involving the internal control structure and its operation that I bring to your attention as follows:

BUDGETS

Public Act 621 of 1978, as amended, provides that a School district shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the School district's actual expenditures and budgeted expenditures for the General fund has been shown on a functional basis. The approved budget of the School district for the General fund was adopted on an activity and/or program level. During the year ended June 30, 2005 the School District incurred functional expenditures that exceeded the budget as follows:

<u>Fund/Function</u>	<u>Total Budget</u>	<u>Actual Expenditures</u>	<u>Budget Variance</u>
General Fund			
Secondary	\$ 669,023	\$ 687,383	\$ (18,360)
Readiness	\$ 31,309	\$ 34,744	\$ (3,435)
Special Education	\$ 52,041	\$ 56,312	\$ (4,271)
Tuition	\$ 18,000	\$ 30,006	\$ (12,006)
Principal	\$ 35,200	\$ 40,767	\$ (5,567)
Interest	\$ 2,600	\$ 5,399	\$ (2,799)
Athletic Fund	\$ 17,205	\$ 72,259	\$ (55,054)
Food Service Fund	\$ 25,250	\$ 30,637	\$ (5,387)

Care should be taken in future years to assure the budgets are amended prior to the year end to insure budget overages do not occur.

The budget responsibility reports available from the computer system are excellent tools for both the administration and the board to evaluate the District's financial performance throughout the year. To be complete both revenue and expenditure data needs to be input and amended as needed. These budget numbers can then compared with the actual results on a monthly basis. I feel this report should be used as a regular monthly report.

The Athletic fund budget must show, as an incoming transfer (revenue), the general fund assistance provided to the athletic department. In addition, all of the salaries and fringe benefits should be budgeted in the athletic fund expenditure totals. This would eliminate the substantial budget overage which occurred this year.

CAPITAL ASSETS INVENTORY

The District had the capital asset inventory updated in 2005 and a capitalization threshold of \$500 was set which now includes much of the district's equipment in the listing.

The building cost was not updated for the 1984 addition, the 1991 classroom addition, nor the 2001 shop addition. I have calculations for those assets and will assist your capital asset management firm in correcting the appraisal document.

CASH DISBURSEMENTS

I noted, during the audit, that a specific bill was paid twice. This occurred because the vendor forwarded an acknowledgement of the order which was used as support for the initial payment and then subsequently an invoice was forwarded which also was paid. The amounts were slightly different due to shipping charges and discounts. The vendor did forward a refund check. In order to avoid this internal control problem in the future, I suggest that only original invoices be used as support for payment. Order acknowledgements and statements should only be used to verify the invoice accuracy.

Union dues appear to have been overpaid for two years. The amounts withheld from employee checks were less than the amount paid the union. In addition, the district has annually paid the entire amount of union dues early in the school year and then withheld from the individual employees throughout the year.

I suggest that the district begin paying the union dues only after withholding from employees, and that the payment occur monthly throughout the year rather than paying the dues in advance. I understand this is being done for the 2005/06 school year.

In addition, the last two years dues need to be analyzed comparing the amount paid with the amounts withheld from the employee. This will allow the district to recoup any overpayment that may have occurred.

PROPERTY TAXES/HEADLEE ROLLBACK

The millage rate approved by your voters is 18 mills, the maximum amount you can levy under Proposal A is 17.7634 while the amount actually levied for 2004/05 was 16.7208 after accounting for the Headlee Rollback calculation. The Headlee Rollback cost the district in excess of \$110,000 for the 2004/05 year and in excess of \$130,000 for the 2005/06 year.

This report is intended solely for the information and use of the Mackinaw City Public Schools management, Board of Education, the Michigan Departments of Treasury and Education, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT